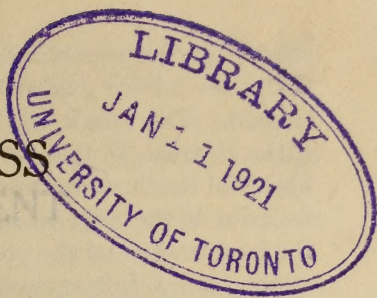


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ADDRESS

OF

JULIUS H. BARNES

FORMERLY
WHEAT DIRECTOR
AND
PRESIDENT OF THE
UNITED STATES GRAIN CORPORATION

TO THE

COMMITTEE OF SEVENTEEN

OF

FARMERS' ORGANIZATIONS APPOINTED
TO CONSIDER GRAIN MARKETING
PROBLEMS

HOTEL LA SALLE, CHICAGO

NOVEMBER 5, 1920

STATEMENT
OF
JULIUS H. BARNES

BEFORE
FARMERS' MARKETING COMMITTEE
OF SEVENTEEN

AT
HOTEL LA SALLE
CHICAGO, NOVEMBER 5, 1920

I am especially glad to appear in conference in response to your request, and especially pleased at the temper in which you approach the great question of improving marketing methods of American farm produce, in a spirit of earnest desire to lay aside all prejudice and previous conceptions and to learn the truth about the basic facts on which sound marketing must proceed.

You will find in every branch of trade engaged in handling farm products a great desire to place at your disposal the practical experience which entitles them to speak with a measure of authority. Manifestly, if the opinions and convictions of men of experience in the various trades is to be at the start lightly regarded as dictated by self-interest alone, and if these great questions in process of solution are to be handled on theory and inexperience, progress in their solution and improvement will be obstructed by the fundamental errors which must then develop.

The Food Administration made a national demonstration of great value when it showed that there could be taken into

confidence the experienced men of the food handling trades, that their advice guided by actual experience could be safely trusted. The result of that sound policy and well placed national trust is that the various trades were preserved in healthful readiness to resume their natural functions and today America is the only country emerging from the war in which the food trades and the producer opportunity has been returned to the natural influences of private initiative responding to the influences of supply and demand laws.

Necessarily, in war time food administration there was close study made of the food handling methods of other countries than our own and methods created by which more exact trade information here and abroad regarding the effect on marketing and consumption of various methods of control influence. The conclusion reached by the Food Administrator has been often expressed by him, namely, that the American marketing system, particularly in those foods in which hedging facilities on exchanges furnished a measure of insurance against excessive loss, has definitely created a lowered trade toll between producer and consumer than anywhere else in the world. If this conclusion is correct, there should be seriously considered in any comprehensive plan for improving the position of the producer whether that insurance feature resulting in a direct saving to producers on every unit of farm produce marketed, could not be well extended to other commodities than those now dealt with in exchange trading.

Because of the importance of this feature I have devoted in my remarks some considerable space to this question of exchange trading. On the discussion of that feature I ask you to approach its consideration with open mind, for nothing in my judgment has been so built on misconception as the prejudice against the great exchanges among the farming community. There are improvements still to be made and the great majority of the trade are steadily trying to work out methods by which the occasional spectacular abuse can be eliminated or reduced without destroying the daily and hourly service, inconspicuous but immensely valuable, that free and liquid trading provides. It seems to me that a consideration of this question of grain

marketing, especially wheat marketing, falls naturally into certain divisions. I would state these for consideration as follows:

1. Influences which affect a general world price level.
2. Obstructions or deflections affecting operation of supply and demand laws.
3. Improvement possible in the relative position of the producer.
4. Service rendered by grain exchange trading.
5. Constructive suggestions.

INFLUENCES WHICH AFFECT A GENERAL WORLD PRICE LEVEL

and

OBSTRUCTIONS OR DEFLECTIONS AFFECTING OPERATION OF SUPPLY AND DEMAND LAWS

Broadly speaking, it may be accepted as axiomatic that the price for an entire crop will be the price at which the surplus of that crop finds its market. That is, that both the price on the export surplus and the price on the entire portion of that crop marketed at home will be the price determined at the market in which that export surplus is sold, less the costs of delivery. This is true whether the export surplus is 50% or 10% of the crop, except that the smaller surplus may be marketed earlier in the crop year and the home marketing thereafter, somewhat independent of the final export market.

The importance of this to the grain grower of America in this particular year, 1920, is appreciated when it is stated that all of the five principal grain crops—wheat, corn, oats, rye and barley—have been harvested in sufficient quantities that each of these crops will more than provide any possible domestic consumption and therefore in the normal operation of the law of supply and demand each of these crops, generally speaking, will seek a price level which reflects an overseas consuming market, less costs of delivery.

This consumption demand culminates finally in Europe. Relative consumption requirements may shift from one European country to another, according to conditions of local crop yield and local consumption, but to Europe generally there

flows the offers from every grain surplus producing country in the world. It is at that datum point of European consumption that the price level is largely determined. At that datum point the pressure of demand for consumptive requirements exceeding their home supplies meets the pressure of competitive offerings of various overseas surpluses of grain.

That is the point at which the law of supply and demand operates most decisively on the world price level and from it by reflection of transportation and other delivery costs into producing countries. That point feels most quickly and, with a resultant price reflection, any radical alteration of general supply and any enlargement or contraction of demand. This demand is created by the buying necessities, but also controlled and limited by the buying ability of consumers.

It is important then to the world seller of grain that that play of supply and demand be as free and uninfluenced as is humanly possible. It is in the broad interest of both producer and consumer that the price currently made at the meeting point of supply and demand influences should be as natural as possible. Arbitrary or artificial deflections, such as the exercise of overwhelming Governmental authorities, almost inevitably create inequalities and prejudice the free opportunity due to producer and consumer.

Supply after all is not a factor definitely ascertainable. Crop production is after all but an estimate and subject to the usual human errors. Even statistics of existing stocks are partly made up of estimates and contain a measure of possible error.

So on the other hand demand is influenced by the opinions and convictions of many individual buyers. Anticipated consumption may actually prove to have been a miscalculation. Consumption of a given grain is always susceptible of variation from a standard estimate. Substitution and alternates or their lack may decrease or swell the actual consumption of any given grain. These factors of supply and demand estimates with their possible variations are translated into the actual practices of selling and buying by producers and dealers and consumers everywhere. The current price should be the free meeting

point of such individual judgment and opinion as being the fairest interpretation of supply and demand influences.

Really cost of production is not a determining factor. Of course, in the long run it must exercise its influence for a prolonged period of unremunerative effort will naturally reduce acreage and thus reduce supply. To look on cost of production of a single country and, as has been sometimes argued, even of one section of a single country, as a solely dominant influence in the world price would be a most superficial consideration of the play of forces that determine a price level.

Broadly speaking, any arbitrary dislocation in either supply or demand throws this law out of balance, temporarily at least. This lack of balance operates in more ways than could be superficially anticipated. For instance, the production collapse in Russia by an unsound social and economic system has taken Russia from the list of grain suppliers where it formerly ranked among the first with its 200,000,000 bushels overseas contribution. Superficially this might be valued as a decided aid to the producers of the remaining supply of the world, but actually it is of very doubtful value to them. The resultant elimination of all trade and commerce with Russia has reacted to curtail the buying power of all the rest of Europe. The world-wide disorganization that has followed the collapse of Russian trade added to the demoralization inevitably following the world war has, by destroying the power to pay overseas, contracted the demand at the datum point of Europe with a serious effect on price.

Today at the datum point of Europe the laws of supply and demand are working only haltingly or against great obstructions. Statistics of production there and in surplus producing countries have lost their usual meaning, because that production is governed by Government regulations that prevent its free influence on price. More important is the fact that the demand itself is deflected and controlled by Government supervision and direction and has lost its usual meaning. Figures of consumptive requirements which usually guide the careful merchant no longer have any value because the normal habits and desires of people are, by national policy, entirely altered. By rationing, consumption is reduced; by controlling of imports, the supply in the market is restricted

and thus consumption is forced to substitutes; by artificial price relations established by subsidies from national treasuries, the usual substitution of individual choice is diverted. These Governments have great domestic problems and we must consider with great sympathy the measures which they deem necessary to take in their own protection. Their home destruction of capital and resources has been severe. The tremendous expense of defense in a war of such magnitude has left them a deadening weight of public and private debt.

Resultingly their overseas credit has been impaired or destroyed. Resultingly their production for overseas trade has been curtailed. They cannot buy overseas except in three ways—by payment of cash, or the export of goods, or by securing credit which capitalizes their future productive resources.

The world is struggling now in almost complete commercial dissolution. This country, producing a surplus of agricultural produce and with its manufacturing industry built on a scale for overseas outlet, cannot remain unaffected by this overseas disorganization. The clearest self-interest impels us to an effort at assisting the crippled European structure back to normal health and activity.

For instance, if the British sterling were at its normal rate today the present price level for flour and wheat in England would net our farmers a dollar per bushel more and if the French franc and the Italian lire were possible to market at the normal rate of exchange their present import cost basis for wheat would net us in America \$1.25 to \$1.50 more.

Not one of the importing countries of Europe has been able to return the overseas grain trade to private merchants. Great Britain, France, Italy, Belgium, Holland, Germany, Switzerland, Spain, Portugal—all of them make their overseas purchases through official agents whose buying policies are influenced by financial or other home considerations which may, and often do, entirely defeat the ordinary considerations of supply and demand alone. I emphasize again that we must view their problems with great sympathy and aid their solution with great patience. Nevertheless it would be unfair to our own people not to point out how control of demand by these Governmental policies affects America.

For instance, the largest overseas buyer, whose normal requirements run to practically one-half the overseas purchases of wheat, has bought not a bushel in America since July 29th—over three months ago—their policy directed by Governmental consideration which would not have affected the usual import merchants abroad. They have abstained from purchasing during the period of crop pressure here and in Canada. Fortunately there has not been concerted action among all the Governments and other importing countries have continued current purchases to a large amount. This particular importer has been able to so abstain because of large purchases made in America last May, June and July providing an enormous advance stock which has carried them through these months and may for some time longer. This is a total deflection of the operation of supply and demand as usually interpreted by commercial judgment. The merchant opinion of the world, freely operating, would never have dared accumulate such a supply of high priced wheat and there would never have been thus established the price level recorded last May and June, for nothing in the usual factors of supply and demand justified such urgent purchasing.

Its harm has been two-fold: This inordinate buying last spring, at a time of railroad congestion, which hampered the usual marketing that the price might have attracted, created a price level in America that was distinctly disturbing to our consumers and distinctly deceptive to our growers. To the price paid at that time may be attributed more than to anything else the confident and misleading prophesies of a high wheat price level for this 1920 harvest, with the resulting bitter disappointment.

This over-accumulation abroad of stocks from the old crop has been especially harmful because it resulted in the withdrawing from the market during crop moving pressure of a large part of the usual buying which would have cushioned the decline in wheat, perhaps inevitable, along with the downward tendency of all commodities.

These accumulated stocks may perhaps suffice to carry that largest consumer into the new movement of Argentine, Australian and Indian wheat.

Already the purchases of the British Government for shipment from Australia and India during the early months of this coming year are being consummated at a price level 25 cents below the present level of United States and of Canadian wheat. Moreover, these very sales typify the deflection of usual commercial laws because these sales are made preferably to the British Empire and its allies by official agencies of colonies, themselves part of that Empire, and giving preferential contract relations to the mother country.

If this condition of Government selling and buying promised to long continue, one could not, I believe, in simple justice, do otherwise than urge the creation of a Government agency to protect our own producers. The injection of Government into business is most undesirable and only justified when our producers have been deprived of the usual protection of free competition. Fortunately it is very certain that Great Britain will in the near future dissolve its Government agency and return its import grain trade to merchants, and this example would probably be quickly followed by other governments as well.

I wish here to make clear that I have no forecast as to whether this means higher or lower prices. I only wish to emphasize that normal trade judgment, the weighing of influences of supply and demand, has been measurably suspended by arbitrary Government action and that current prices which should be made by the play of individual competitive judgment everywhere in the world are not fully made in that manner at present.

For three years as a war measure, and only justified by war, this country set up a Government agency, the United States Grain Corporation, which protected our producers against a decline below a certain basis. The value of that protection by absorption at a fair price level and by an agency powerful enough to take care of all offerings no matter what they may be, is shown by the fact that in those three years at that level the Grain Corporation bought a total of 680 million bushels of wheat and flour. On the last crop the pressure of marketing forced to the fair price level and into the hands of the Grain Corporation in protection of that price, almost 200 million bushels, but from that basis there was an early rebound, at one time in the last year the average farm price showing a reflection

of 50 cents per bushel above the fair price level. Frankly, that kind of one-sided protection is unfair. The consumer, from whose tax contributions to the National Treasury this protection is extended, should have some assurance that his interests also will be considered. A market is manifestly unfair to the consumer when there is a Government price below which a price may not go and yet is left open to domestic and foreign buying of a character which I have described which may make a price far above the fair price level after the consumer's own money has furnished the means to prevent the pressure of supply producing even temporarily a lower price level.

It is manifest then that, under present conditions, supply and demand pressure do not freely counteract each other in the normal manner. Whether these obstructions have sustained the price level or depressed it may never be conclusively shown. If the period of foreign Government control and influence of prices is soon to cease we may better bear this situation temporarily as an unavoidable step in re-establishing the normal operation of world trade and commerce. A measure of temporary injustice to be borne in the processes of reinstatement of sound trade methods would be better than for us to inject, with resultant delay, further Government control into those trade processes, already on the road to normal healthy functioning.

(3) IMPROVEMENT POSSIBLE IN THE RELATIVE POSITION OF THE PRODUCER

If we concede that generally the determining price factor on our crops is the meeting point of competitive offers in Europe, then we appreciate the value of economies in transportation or other costs between that point and the American farm. If American farm produce must in the final analysis compete in Europe with the streams of export product of cheap labor countries such as Russia and India and Argentine, then it is more than ever important that the cost of putting American farm produce in that final market be reduced by every means possible. Certainly every natural advantage should be developed.

In the past, the thousand miles of Great Lakes cheap water transportation, deep as the sea, without current or tides, has

been an immense factor in making a favorable relation between the western farm price and the European consumption price. Its benefit was not confined alone to that grain actually carried on the Lakes, but more, that parallel and competing rail grain rates have been controlled and influenced by that water competition. It follows then that a project such as that before the country today of so improving the St. Lawrence that ocean carriers reach the Western ports of the Great Lakes or that the Lake carriers may deliver their cargoes alongside the ocean carriers in the St. Lawrence instead of breaking bulk at Buffalo, deserves the earnest consideration and support of those who have at heart the improvement of the relative position of the Western producer. The International Joint Commission is now holding hearings on this project. The engineers of Canada and the United States will shortly have a report of its feasibility and probable cost. Fourteen states, through their governments, have endorsed and are supporting it. When the growers comprehend what it means, such an organization as this should make an overwhelming demonstration of public opinion in support.

Its relation to the farm delivery cost simply stated is this: The present rail rate from Buffalo to New York is 12 cents per bushel. Also, to reach Montreal, the rail rate from Georgian Bay is also approximately 12 cents per bushel. Ocean carriers may be secured at the same rate from Montreal as from New York. The opening of the St. Lawrence waterway and the improvement of the Welland Canal, already undertaken by Canada, would enable the Lake carrier to Buffalo to extend its trip to Montreal—only forty-eight hours longer—at a cost probably not exceeding 2 cents per bushel. This promises a saving of 10 cents a bushel during part of the year. Its influence may reasonably be calculated to affect and improve the farm price by five cents per bushel on the entire grain crops of that section of the country whose arc of competitive rail rates would thus be centered on the Great Lakes ports—Duluth, Chicago, Milwaukee, Detroit, Toledo, Cleveland.

This applies to home consumption as well as exportable surplus, so it may reasonably be calculated on some four billion bushels of grain, or \$200,000,000 annually. I attach hereto a table showing by states that portion of the United States grain crops whose farm price would be relatively improved by the

influence of the cheapening of transportation through the St. Lawrence route when developed. I have also included in the same table a statement of the grain crops of Western Canada, all of which are affected by this saving as well. Where can you find a project which in one step could so improve the production position?

In studying this situation I am led to believe that if the western railroads serving the producing areas, could terminate their car voyages on their own lines, the turnaround of the carrier would be immensely improved and it could not fail but preserve the ready producer market. Under the present railroad flow, the western lines are repeatedly stripped of their own car equipment, to the great detriment of the producer opportunity along those western lines, while the trunk lines, with an influx of loaded cars bound for the sea-ports, are cumulatively hampered and slowed-down by excessive car movement. From the beginning of harvest this situation develops most acutely, and with no inducement to return those cars empty the long stretch of trunk line haulage to the west, these cars remain often idly blocking sidings and railroad terminals, at the same moment that western lines are crying for equipment to relieve the producer along their lines. Again and again during the Railroad Administration control, peremptory orders sent thousands of empty cars west for re-delivery to the originating western lines, which are very unlikely to move without such peremptory direction. If these western lines could terminate their journey with export commodities by delivering them to the ocean carrier at Chicago, and Milwaukee, and Duluth, there would be an immediate equalization of car ownership and distribution, and immediate relief in loaded car return to service which I believe can be equalled in no other way.

Illustrating this point, I attach table of percentage of car statistics on the various lines, as compared to car ownership of those same lines.

I would call your attention to the situation as shown in this table on the four principal trunk lines, and how, especially prior to the effective direction of car distribution by the Railroad Administration in 1918, these trunk lines showed almost uniformly a percentage of cars on lines far exceeding their 100% of ownership.

I would call your attention also to the figures of car distribution affecting twelve principal western lines. You will notice, for instance, that such a railroad as the Great Northern, on April 1, 1918, had less than 50% as many cars on its lines as its own ownership, and the Soo Line as low as 46%.

It is not necessary, I am sure, to elaborate on what this meant of dislocation of the producer opportunity along such western lines.

There is another phase which would reflect at once into enlarged transportation service of the individual car, and that is an analysis of the port grain loading facilities. The three principal Atlantic ports show the following elevators equipped to load grain to ocean steamers or to lighters destined for ocean steamers:

New York.....	3
Philadelphia.....	2
Baltimore.....	5
Total.....	<u>10</u>

On the other hand, the three principal shipping ports of the Great Lakes show the following loading facilities:

Chicago.....	22
Duluth-Superior.....	13
Ft. William.....	24
Total.....	<u>59</u>

The value of improving delivery facilities and costs is sharply shown by their influence on relative world prices during the war months. For instance, distribution overseas was restricted by scarcity of ocean tonnage, the menace of submarine destruction, the difficulty of overseas finance. The effect of these advanced distribution costs and difficulties is most clearly shown in the table of standard food relations between July, 1914, and March, 1919. In that period standard retail food prices advanced as follows:

In the United States.....	72%
Canada.....	76%
Great Britain.....	120%
France.....	160%
Italy.....	167%
Norway.....	175%
Sweden.....	234%

while Australia, cut off by these conditions from the influence in its home markets of European price enhancement, advanced only 41%.

Three years of administration of the United States Grain Corporation, protecting the guaranteed Fair Price on wheat to the producers in United States, has crystallized especially one very definite conviction in my mind: That price and distribution are two component factors in the translation of production to consumption. Relative price has always been the attraction for distribution, and unless there is distribution of a commodity, the actual and relative price structure is at once dislocated. During the war some of the European countries, by law or edict, established a maximum blanket price throughout their territories, and found that the established distributing agencies at once ceased to function. These blanket prices established as maximums at once became, under pressure of price inflation, the ceiling against which all prices rebounded. Under that condition, no incentive existed for a distributor to pay a transportation cost, and distribution ceased, until the Governments, themselves, at their own expense, bridged the gap of distribution costs. On the other hand, where there was left a play of price inducement to attract distribution, the normal processes went on undisturbed, except as that distribution became broken by transportation or finance difficulties. In America, for instance, car scarcity and congestion blockades produced, between certain sections, the effect of no transportation connection whatever, and relative price at once showed the effect. The daily press carried to the western farmer the market news of high-priced corn in the feeding sections of New England on the very day when he was besieging the country dealer to purchase his corn at the country station at a price that no longer bore any relation to the transportation parity with the consuming price, because there was no carrier to equalize the depressed farm production with the famine price of the needy consumer. For almost two years the Grain Corporation, as a Government Agency, supplied with information required under license regulation from its fifty thousand licensed dealers and elevators, operated with the railroads to control the flow of cereals and cereal products into the ports and market centers of the United States. Supplied thus with information of crop

movement and stocks not possible to any private agency, it governed, by daily permits, the flow of cars into these various centers at a rate adjusted to the handling facilities of those centers. I have no hesitation in saying that this control, based on that exact information, and the resulting discrimination between shippers, sections and commodities accepted generally by the affected trades because of their confidence in this Government agency, was a great factor in avoiding car blockades and car congestions by overcrowded terminals that would have paralyzed for certain periods the entire grain movement of the country and reached into other commodity movements as well. The effect of this kind of co-operation in making the most of the facilities at hand is shown by the official figures of tonnage moved in 1918, of 404 billion tons, against 1915, of 277 billion tons, with almost identically the same number of locomotives and freight cars on the railroads of this country. The exact trade information on which intelligent action thus was based could be secured only by license requirement from the trades of the country, and this is too heavy a price to pay except in time of war. Moreover, the discrimination necessarily involved between shippers and markets is a dangerous control to place in any hands, except again as a war prosecution agency. We must look to other methods for avoiding the periodical car blockades and terminal congestion that tend to hamper or suspend commodity movements, with the resultant depression of producer price and advance of consumer price, with no corresponding benefit to any class.

One practical suggestion, at least, is to improve the car supply and facilities of our railroads until there is immediate reflection of consuming demand to farm supplies.

Broadly speaking, the storage facilities of the country are completely adequate. Liquid car supply is far more important in price protection than the enlargement of storage. The licensed elevator capacity in the United States as shown by the exact records of the Grain Corporation were as follows:

Country elevators.....	521 million bus.
Mill elevators.....	150 million bus.
Terminal elevators.....	262 million bus.
Total.....	933 million bus.

At the highest point of grain in storage at any one time as shown by the weekly license reports from all elevator operators, there were 480 million bushels of all grains. Considering the condition of car supply and railroad transportation, part of this accumulation was in storage by force of circumstances and not by choice so that it is reasonable to conclude that we have again, broadly speaking, sufficient storage capacity to provide every owner with the means of storage as desired. There are, of course, exceptions in certain localities to this general rule.

As large factors, in the relation of producer price to final market price there is, of course, the question of trade tolls for the different processes. Country elevator, margins, terminal market charges, elevator and handling expenses of various kinds, milling expenses and profits—all affect the price relation. Processes which require a fixed capital investment, such as the construction of elevators, country and terminal, must have the encouragement of adequate earnings or the facilities will not be provided. It is proper to inquire whether charges levied by those facilities are generally fair and not excessive. In fairness, of course, their returns cannot be judged against a single exceptional year, but rather over periods which are more fairly indicative of general results, and with due regard for current hazards and the danger of investment destruction by altered conditions. The country is dotted with abandoned elevators, standing as a deterrent to further investments unless offset by current earnings as protective amortization. A decision on this may be largely determined as to whether competition is free and active. Individual judgment is safer in estimating hazards and attractions than rigid regulation.

No factor, however, would so unfavorably affect the relation of producer price to ultimate consumer price as to introduce unusual hazards which, in the normal course of trade, would be insured against by larger operating margins. I have a very clear conviction based on the experience and records of the Grain Corporation that generally speaking these margins have been not excessive and that the trade tolls between producer and consumer are unusually narrow on grain as against other standard marketable commodities. To be sure the Grain Corporation, offering the security of a constant market at a publicly

known and unchanging price furnished a form of security which was clearly reflected in narrowing trade charges.

This question of the reduction of commercial hazards to the minimum is important in many ways. Credit becomes more readily obtainable. This in turn requires less capital investment to enter grain handling. This in turn widens the circle of competition. It seems clear that the preservation of the conditions of free competition operates more directly in the producers' favor than in any other one protective influence. But because the imperative condition for preserving ready competition by individuals and firms of small capital requires the highest grade of trade security, of protection against loss of capital and credit by price fluctuations, it is essential that the security provided by grain exchange hedging should be carefully considered. The fixed price security afforded by the Grain Corporation was a war measure and would be accepted by self-governing people only as a war measure. In its place we must provide a different method, which, responsive to the natural laws, will nevertheless preserve the advantages of competition supported by a minimum of business hazard. Therefore it is proper to examine the service rendered by grain exchange trading.

(4)—SERVICE RENDERED BY GRAIN EXCHANGE TRADING

Manifestly the ideal marketing condition would be one in which in every given week there was harvested the exact amount of wheat for that exact week's consumption; of absolutely uniform quality and in such areas as would immediately supply consumption without necessitating transportation and distribution problems.

It is true that in every month of the year some portion of the wheat crop is being harvested and that therefore every month and every day in the year sees some portion of the world's food supply exposed to the vicissitudes of the growing season. It is also true that the major portion of the world's total consumptive requirement is harvested during the months of July, August and September. Those months then and the months immediately following are the months of seasonable surplus production, which surplus must be carried against the later months of actual consumption.

There therefore arises the necessity for someone to carry the crop surplus through this seasonal lack of exact balance.

Grain stored and carried in this manner immediately begins to incur certain expenses. There must be a prospective increase between the purchase price and the future selling price or there would soon be no inducement for anyone to relieve the grower in whole or in part of the risks in bridging that gap. Actual expenses begin with the purchase and unless a contract can be immediately made for the later delivery there is introduced the great hazard that the price finally received will not after all equal the invested price plus actual accrued charges and a profit.

This outcome is again complicated by the fact that month by month crop production somewhere in the world goes on and that month by month estimates of total production and estimates of current consumption may have to be revised by better actual knowledge, with resultant price effect.

These very real and very large hazards of value shrinkage prevent the merchant and the miller from the accumulation of a year's supply during the crop moving period. Their own capital could not stand the loss which even a moderate fall in values would force upon them. Lenders of money would not hazard the large sums needed in the grain movement if the borrower were exposed to losses that would inevitably follow a miscalculation of supply and demand and price effect.

The freedom of opportunity for the individual grower to market an entire crop at the harvesting season, if his judgment so approves, can only be secured by creating in some manner a great absorbing advance buying power. This in turn can only be created when the individual judgment of investors and speculators assures them that purchases stand at least an even chance to be salable later at enough advance to pay the fixed accrued charges and a profit, which profit must be commensurate with the risk of loss in case their judgment proves in error. The current selling by producers and dealers and the current buying by ready users proceeds daily along with this other trading which cushions the transition from surplus production to actual consumption.

These are vast currents not always visible on the surface, but recorded in the daily price transactions. Whether their

effect is to raise or depress prices is incapable of exact demonstration, but there is the very real gain that the security in hedging against unusual hazards does permit a great volume of competition in handling which distinctly narrows the toll between farm price and consumer.

Manifestly the daily and hourly recording of a price in a world commodity which, broadly speaking, is raised in every quarter of the globe, and each year to almost the exact amount of world consumption, will be susceptible of wide swings of price. Price is the adjuster, peculiarly in wheat, by which consumption is increased or diminished to suit a fluctuating supply. Price reduction stimulates consumption at the expense of substitution and alternates of various kinds, and price inflation in years of short supply induces wheat consumption to partially transfer itself to other foods. That price response is flexible when left to the natural play of the individual judgment of thousands of traders, putting their own interpretation upon the estimates of supply and of demand, revalued and re-corrected with better information from time to time. Fluctuations, wide or small, must not be treated as the result solely of sinister manipulation.

In the last three months there has occurred, for instance, a considerable fall in the price of wheat. Superficial judgment has loudly proclaimed that that has been the result of selfish manipulation.

Let us examine the probabilities. During that period the surplus wheat producers, Australia and Argentine, have made three months of favorable progress until their generous contribution to the world supply seems now assured. Three months of demonstration has shown that the buying of three months ago in our own markets provided large and unnecessary flour stocks at home and large and unnecessary wheat stocks in at least one of the largest consumer countries abroad. Consumption has not yet overtaken that unwise and apprehensive accumulation at home and abroad.

There has been much emphasis about the effect on the wheat price of Canadian imports free into the United States. The imports of this crop to date have not probably exceeded ten million bushels. I have seen little mention of the far more important fact that in the first four months of this crop year,

preceding this November first, the consumption of wheat in our American mills has fallen off fifty million bushels from last year, a far more serious price depresser than any question of Canadian imports. This falling off in mill consumption indicates the buying temper of our people and the contraction in current demand which that indicates cannot help but have a price effect.

Moreover, in none of the discussions of the recent fall in prices has any public mention been made of the significant figures of our overseas sales of food products. How significant this really is is shown by this brief statement of the total exports of food stuffs from the United States in the years below:

1912-3.....	7,900,000 tons
1913-4.....	5,900,000 tons
1914-5.....	15,500,000 tons
1915-6.....	13,500,000 tons
1916-7.....	12,600,000 tons
1917-8.....	10,000,000 tons
1918-9.....	17,000,000 tons
1919-20.....	11,700,000 tons

The food exports for the present year promise a sharp drop from the 11,700,000 tons of last year. The producing community and its advisers must not underrate the price effect on surplus crops of a drop in exports from the high point of 17,000,000 tons to probably less than 10,000,000 tons. The situation is accentuated further by the fact that the aggregate grain crops this year of the United States have surpassed any previous record.

To ignore these very important supply and demand factors and raise a cry of speculative manipulation shows a regrettable lack of feeling of responsibility toward the producer honestly seeking light.

Moreover, indications show that wheat itself has had a lesser fall in violence than most standard commodities, probably greatly cushioned and retarded, as compared with other commodities, by exchange trading.

For instance, the October first price of the various farm commodities showed the following percent of fall from the highest farm price recorded since the war:

Wheat.....	18% decline
Corn.....	38% decline
Oats.....	40% decline
Rye.....	32% decline
Barley.....	46% decline
Cotton.....	55% decline
Potatoes.....	68% decline
Beans.....	47% decline

Moreover, this deflation tendency has been world-wide in character and not confined to American farm products alone. We find that in the standard foods, of which we do not raise sufficient for our consumption, coffee fell 66% and sugar 61%.

The fair conclusion from this showing is that the producer of wheat has escaped so far the full effect of deflation much more severe in commodities in which there has been little or no exchange trading.

The responsibility of advice to the producer as to a definite price to expect is a responsibility appalling to any man of sober judgment. To secure for individual producers the most exact and carefully verified information, on which the producer's individual judgment may decide his selling policy, is a real service indeed. There has been much of advice to the grower to hold back wheat for a certain definitely expressed price per bushel, but who has told the farmers that a chief overseas consumer had by reckless buying anticipated half a year's consumptive requirements. That the truth of this has been demonstrated by three months', and more, absolute abstention from buying in our markets. That this consumer today, approaching now the shipping time for the new crops of Australia, Argentine and India, is making purchases from responsible Government sellers at a price delivered abroad of 25 cents per bushel under the present American and Canadian price.

Some fortunate turn in world conditions; some crop disaster somewhere; some shifting of consumptive demand from other foods to wheat, may in the end establish the higher price basis that they expectantly advise, but if it should not, and if the producer of today should find some months later that the pressure of world deflation and of overseas disorganized finance has cut a substantial portion of the present value from his produce, there will be bitterness on the part of the producer

and there will be further misrepresentation of the price recording functions of these exchanges in the effort of mistaken advisers to exonerate their own possibly poor judgment.

Exact and comprehensive information, much of which is today readily obtainable through the exchanges themselves, would be a more helpful tender to the producer than arbitrary price advice which incurs tremendous responsibility.

Along with that superficial prejudice which stamps all fluctuations on grain exchanges as solely due to manipulation, without regard to the constant changes in relative appreciation of determining price factors, developed from day to day, lies also the superficial criticism that because the volume of such future contracts exceed the actual receipts of grain at a given market, that the market influence of the actual grain is submerged in the influence of that larger volume of future trading.

The great service of exchange trading is the liquidity of transaction by which buyer and seller may protect their commitments on a moment's notice and with the least possible violence of fluctuation. To preserve that liquidity in which large transactions against actual marketing and milling and exporting may be consummated without violent price dislocation it is to the public interest that buyers and sellers should be largely gathered at certain central points. These points, if fairly representative of production and consumption currents, create thus a national price level and by the very readiness of trading facilities for hedging, automatically reduce the toll. These central trading markets are not always on the routes of actual movement of grain, though the handler through those other routes is protected in his narrower trade margins by the security of the central future market. Grain should move along the most natural line of cheap transportation, even though that line does not actually move through the central trading markets in which the hedging security is used.

This means that naturally the volume of trading in and out of those insurance facilities greatly exceeds the volume of actual grain and yet that everyone of those insurance trades were bona fide hedges of equivalent amount for actual owners during their portion of the transportation and handling risk. This insurance is made more effective and flexible by the accompanying

scalpers and traders whose profit or toll is really an insurance premium paid for immediately available security.

This insurance service can only be most highly rendered by a large volume of liquid trades, cushioning the disparity that exists between the actual matched orders of buyers and sellers of spot grain. It is impossible to expect that the buying orders of consumers will meet the selling orders of owners of grain in exact quantities, exact qualities, exact locations and at the exact time. The very value of this insurance of narrow trade margins lies in the readiness of execution.

The fact that from these various causes the total quantity of future trading exceeds the volume of actual grain trading, properly interpreted, even after allowing for a portion of undesirable trading, is the evidence in itself of the trade service rendered by those future hedging facilities. On the security of these insurance facilities credit is readily obtained by men of character but of small means. The circle of actual and potential competition is thus widened, and in this free competition rests the great protection of both producer and consumer.

Without the security of that hedging insurance the trade would rapidly rest in the hands of a few large aggregations of capital, demanding larger trade tolls as the price of risking their larger aggregate capital in business of such hazard.

If it is argued that these trading facilities present an opportunity for the depression of a price by sheer weight of short selling, it is answerable, and soundly, that every contract made in this way must be bought back in the same manner and the effect of such selling pressure must be shortlived at the best.

Broadly speaking, prices do not fluctuate because of speculation. They fluctuate from more fundamental influences than that. But speculation is attracted to where there is price fluctuation and to the extent that they make this narrow trade toll more liquid and effective, that speculation may be treated as of incidental public service and not summarily condemned.

It is because I believe the greatest contribution to the farm price rests in preservation and possible reduction of trade tolls and handling margins, and because I am so deeply convinced that the preservation of these narrow margins rests on the insurance afforded by exchange hedging facilities that I want to

elaborate this point of grain exchange trading more fully, as possibly the most constructive step possible to take in the protection of the producer. My suggestion is this—by co-operation with the exchanges themselves there be developed a greater national market structure in which the insurance phase of exchange trading shall be most directly encouraged. This means to establish a basis for contract deliveries so broad that in its volume the individual operations of those who may seek to influence a price level, up or down, by pressure of contract offerings alone will be lost and their purpose defeated. The specifications for contract delivery should be made so wide as to varieties and qualities, at fair differentials, that no man or group of men would ever again attempt to misuse the contract facilities of the exchange for private extortion.

It would be well to consider whether such a national market structure should not be framed to accept delivery on contracts in any one of a number of standard storage centers. That, for instance, wheat of a specified standard grade in Minneapolis warehouses, or in Omaha, or Kansas City, could be delivered in Chicago at a relative price reflecting measurably the transportation charge, plus a moderate allowance for shipping expenses. The effect of this would be that a national price level so created would be indicative of the general value of standard wheat, but that above that level, at premiums reflecting the individual instance, would trade those special varieties or qualities, or in those special locations which the needs of the individual buyers may designate. By measurably concentrating the trading in standard contracts in a few centers, but on so broad a basis of final tender that private manipulation is rendered powerless, there would be developed to the utmost the full liquidity of instant trading and created a price level more quickly responsive to the basic supply and demand influences. The time is ripe for the producer to recognize the great usefulness which these exchanges now furnish and the increased usefulness which, by co-operation, can be developed. The time is also ripe in my judgment for these exchanges to ask a better understanding of their existence as recorders of prices made generally by the operation of great economic forces and to ask support in the undoubtedly sincere efforts which those exchanges are making to minimize and eliminate the use of their facilities for undesirable ends.

The response of decreased trade margins when security against capital loss is provided is shown most strikingly during the period of security afforded by the maintenance of an assured price level under the authority of the Food Administration and the wheat guarantee. Taking the average prices of wheat, flour and of bread for the year 1913, before the war, and comparing them with the official records of the Department of Agriculture and the Bureau of Labor as of January 1, 1920, we find the following relations of advances:

Farmers' price of wheat.....	193%
Retail price of flour.....	133%
Retail price of bread.....	82%

Wherever you can eliminate hazards in business and preserve free competition to enter that field, you will automatically reduce the trade tolls which customarily reflect the apprehension of loss.

I am led by these considerations, and by the experience of twenty-five years in grain handling, to believe that the American market system, with the insurance system of its future hedging trading, preserves the most favorable relation of producer price to consumer price to be seen anywhere in the world and no other method today approaches it in its protection to the producer relation.

Therefore I hope that any study of the function of grain exchanges will approach that subject without any preconceived opinions or convictions, but with open mind, for I believe those facilities are, in the last analysis, of large national service.

(5) CONSTRUCTIVE SUGGESTIONS

Summarizing the suggestions I would make that will directly, though not always visibly, reflect into an improved position of the farmers' relation, I should list them as below:

First. Exact and accurate information on all phases that affect marketing and price, both national and world-wide, verified and endorsed by an organization or agency in whose judgment and care the producer has confidence.

Second. Improvement in transportation facilities which maintain ready marketing opportunity and reduction of trans-

portation costs wherever possible between farm and ultimate market. Under this I would emphasize the great service possible by such projects as the St. Lawrence ocean waterway and the broader question of railroad transportation with its phases of adequate car supply and fair rate relation.

Third. Development of home consumption as far and as fast as possible, making our crops less dependent on foreign markets made by overseas competition. With the per capita consumption of wheat in France, for instance, at nine bushels and in the United States at six, we have a possible field of home consumptive expanse which would benefit our people in both health and living costs.

Fourth. Developing and understanding and appreciation of the great exchanges and co-operation with them in developing their full service and eliminating their defects and abuses.

Fifth. If by these various steps the position of the American producer can be made secure in net price return, and if by cheapening production and distribution costs our country can be maintained as a surplus reducing country, necessarily competing in world markets, but also maintaining American farm life on a proper scale, and in healthful operation, we would reach the ideal American position. That ideal would be that our industrial population may be afforded their foods at the export relation to overseas food costs, and yet this not at the grower's expense. If we are to expand our factory production into overseas trade and preserve in the industrial workers, also the American standard of living, we must maintain the advantage of the past—that of a plentiful supply of reasonably priced farm products.

Contrary to the popular impression that general trend of farm production in this country is to larger crop totals, I attach herewith a table of grain production covering the past ten years and grouped in certain divisions from which the following facts may be briefly stated: During the four years preceding the war our crop production per capita of both bread grains and feed grains averaged 47.4 bushels. During the five war years our crop production per capita averaged 51.9 bushels. On the grain crop of this year just harvested our production per capita averaged 53 bushels.

As to the percent of exports to our grain production, the four pre-war years' exports of all grains averaged 3.8% of the total crop. During the five war years, exports averaged 8.5% of the crop. During the last cereal year just completed our exports averaged 6.5% of the total crop.

The potential field for continued crop increase in the United States under proper price stimulation is illustrated by crop production per acre under our methods and the production in Europe under intensive farming.

For instance, taking the last years in reference to which there are obtainable reliable European statistics, we find that the three pre-war years' average production of wheat in the United States was 15 bushels per acre and the average for eighteen European countries 22.8 bushels per acre.

The extension of intensive methods will naturally follow the price stimulus. Again emphasizing the necessity of securing for our producer the largest possible percent of the ultimate consumer price as the surest encouragement to the maintenance of production, the American farmer can narrow the spread between those two comparisons by increasing the American yield per acre when he finds that the net price received at the farm warrants the expenditure in fertilizers and in intensive cultivation.

In conclusion, there is a great service to be rendered by recognition of the vast currents of economic pressure and by constructive utilization of those currents when studied and understood. Exaggeration of surface abuses into deflections and distortions of those laws, which they are not, should be avoided. There never was a time when so many men in America of all classes appreciated that the health of the agricultural community must be maintained and are anxious to put their ability and experience in the service of constructive effort.

Table by States showing portion of United States grain crops affected by proposed St. Lawrence Deep Waterway on assumption of reduction of rates sufficient to control Kansas City outlet.

	Corn	Wheat	Oats	Rye	Barley
	1919	1919	1919	1919	1919
Ohio.....	163	54	51	2	3
Michigan.....	64	20	36	13	5
Indiana.....	175	46	60	5	1
Kentucky.....	82	12	9	1	..
Illinois.....	301	65	123	4	5
Wisconsin.....	85	7	78	8	13
Minnesota.....	118	37	90	7	18
Iowa.....	416	23	196	1	8
Missouri.....	155	57	38	1	..
Kansas.....	69	151	44	2	16
Nebraska.....	184	60	69	6	5
So. Dakota.....	91	30	53	6	19
No. Dakota.....	16	53	38	15	14
Montana.....	2	10	6	..	1
Wyoming.....	1	4	5
Colorado.....	11	17	6	1	3
	<u>1933</u>	<u>646</u>	<u>902</u>	<u>72</u>	<u>111</u>

GRAND TOTAL—3,664 million bushels five grain crops for sixteen States.

A saving of 5 cents per bushel on these combined grain crops would mean an additional farm return of \$183,200,000.

A saving of 10 cents per bushel would mean \$336,400,000 additional.

Table showing principal grain crops of the Three Provinces of Western Canada, 1919:

	Wheat	Oats	Rye	Barley
	1919	1919	1919	1919
Manitoba.....	40	57	4	17
Saskatchewan.....	89	112	2	9
Alberta.....	34	65	1	10
	<u>163</u>	<u>234</u>	<u>7</u>	<u>36</u>

GRAND TOTAL—440 million bushels.

On which a saving of 5 cents per bushel would mean \$22,000,000.

On which a saving of 10 cents per bushel would mean 44,000,000.

**TABULATION OF UNITED STATES TOTAL GRAIN CROPS
BY CEREAL YEARS, AND EXPORTS THEREFROM**
(000 Omitted)

	1910-1911	1911-1912	1912-1913	1913-1914
Wheat.....	635,121	621,338	730,267	563,380
Rye.....	34,807	33,119	35,664	41,381
Total.....	670,018	654,657	765,937	604,761
Corn.....	2,886,260	2,523,988	3,124,746	2,446,968
Oats.....	1,186,341	922,298	1,418,837	1,121,768
Barley.....	173,832	160,240	223,824	178,189
Total.....	4,246,433	3,605,826	4,757,403	3,746,946
Grand Total.....	4,916,451	4,260,483	5,523,340	4,351,707
Exports				
Wheat.....	63,312	79,689	143,879	145,590
Rye.....	34	27	1,849	2,264
Total.....	63,346	79,716	145,728	147,854
Corn.....	65,720	42,017	50,994	10,893
Oats.....	3,889	2,646	36,289	2,693
Barley.....				
Grand Total.....	147,755	125,965	249,547	168,086
Population.....	93,300	94,600	95,900	97,100

Average breadstuffs crop as shown above—673,843,000 or 7.08 per capita.

Average feed grain crop, 3,839,152,000 or 40.32 bu. per capita. Total per capita production, 47.4.

Exports for the four years averaged of all grains 175,339,000 bushels or 3.8% of the crop.

	1914-1915	1915-1916	1916-1917	1917-1918	1918-1919
Wheat.....	891,017	1,025,801	636,318	636,655	921,438
Rye.....	42,779	54,050	48,362	62,933	91,041
Total.....	933,796	1,079,851	684,680	695,588	1,012,479
Corn.....	2,672,804	2,994,713	2,566,927	3,065,233	2,502,665
Oats.....	1,141,060	1,549,030	1,251,837	1,592,740	1,528,124
Barley.....	194,953	228,817	182,309	211,759	256,225
Total.....	3,953,817	4,772,560	4,001,073	4,869,732	4,287,014
Grand Total....	4,887,613	5,852,411	4,685,753	5,569,320	5,299,493
Exports					
Wheat.....	332,465	243,117	203,574	137,786	312,552
Rye.....	12,946	15,131	13,630	16,334	35,817
Total.....	345,411	258,248	217,204	154,120	348,474
Corn.....	50,914	40,107	67,007	50,135	25,149
Oats.....	100,371	98,770	94,720	132,108	126,765
Barley.....					25,388
Grand Total....	523,441	424,598	395,312	362,664	525,777
Population.....	98,500	99,900	101,300	102,700	104,200

Production of bread grains averaged for the five years 8.6 bu. per capita. Feed grains 43.3, or a total of 51.9.

Exports of all grains for the five years averaged 8.5% of the crops.

TABULATION OF UNITED STATES TOTAL GRAIN CROPS
BY CEREAL YEARS, AND EXPORTS
THEREFROM—Continued
(000 Omitted)

	1919-1920	1920-1921
Wheat.....	940,987	750,648
Rye.....	88,478	77,893
Total.....	1,029,465	828,541
Corn.....	2,917,450	3,216,192
Oats.....	1,248,310	144,362
Barley.....	165,749	191,386
Total.....	4,331,509	4,851,940
Grand Total.....	5,360,974	5,680,481
Exports		
Wheat.....	219,644
Rye.....	40,889
Total.....	260,533
Corn.....	17,393
Oats.....	42,841
Barley.....	27,037
Grand Total.....	347,805
Population.....	105,768	107,200

Production of bread grains 1919-1920, 9.77 per capita. Feed grains, 40.93, total 50.7. Exports, all grains, 6.5% of the crop. Production of bread grains 1920-21, 7.73 bu. per capita. Other grains, 45.27, total 53 bu. per capita.

TABULATION OF UNITED STATES TOTAL GRAIN CROPS
 BY CEREAL YEARS AND EXPORTS
 THEREFROM—Continued
 (000 Omitted)

	1920-1921	1919-1920	1918-1919	1917-1918	1916-1917
Wheat	982,345	787,067	822,138	822,138	822,138
Rye	184,14	184,14	184,14	184,14	184,14
Total	1,166,489	971,201	1,006,252	1,006,252	1,006,252
Barley	1,007,79	1,007,79	1,007,79	1,007,79	1,007,79
Oats	1,007,79	1,007,79	1,007,79	1,007,79	1,007,79
Grand Total	2,015,588	2,015,588	2,015,588	2,015,588	2,015,588
Exports	2,015,588	2,015,588	2,015,588	2,015,588	2,015,588
Wheat	2,015,588	2,015,588	2,015,588	2,015,588	2,015,588
Rye	2,015,588	2,015,588	2,015,588	2,015,588	2,015,588
Total	2,015,588	2,015,588	2,015,588	2,015,588	2,015,588
Barley	2,015,588	2,015,588	2,015,588	2,015,588	2,015,588
Oats	2,015,588	2,015,588	2,015,588	2,015,588	2,015,588
Grand Total	2,015,588	2,015,588	2,015,588	2,015,588	2,015,588

Production of bread grains 1919-1920, 9.77 per capita. Feed grains, 40.03, total 50.7. Exports, all grains, 6.5% of the crop. Pro-
 duction of bread grains 1920-21, 7.73 per capita. Other
 grains, 46.27, total 54 per capita.

Wheat	1,007,79	1,007,79	1,007,79	1,007,79	1,007,79
Rye	1,007,79	1,007,79	1,007,79	1,007,79	1,007,79
Total	2,015,588	2,015,588	2,015,588	2,015,588	2,015,588
Barley	2,015,588	2,015,588	2,015,588	2,015,588	2,015,588
Oats	2,015,588	2,015,588	2,015,588	2,015,588	2,015,588
Grand Total	2,015,588	2,015,588	2,015,588	2,015,588	2,015,588